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25X1



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Central Intelligence Bulletin

CONTENTS

CHINA - NORTH VIETNAM: Economic and military aid pact hammered out. (Page 1)

SOUTH VIETNAM: Thieu's Democracy Party scores victories in local elections. (Page 2)

SPAIN: Franco relinquishes position as premier. (Page 3)

CSCE-MBFR: Date set for CSCE, but final approval still hinges on MBFR. (Page 4)

CHILE: President Allende may again turn to General Prats to shore up government. (Page 5)

HUNGARY: Drought damage to crops may necessitate greater imports. (Page 6)

GREECE: New republic will feature strong presidency. (Page 7)

JAPAN: Domestic opposition to nuclear-powered ship. (Page 7)

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*CHINA - NORTH VIETNAM: The two sides have signed an agreement on Chinese economic and military assistance to North Vietnam for next year. The pact apparently was hammered out during the high-level North Vietnamese visit to Peking this week.

A Chinese news agency announcement on 8 June states that the purpose of the agreement, after the "end of the war," is to "heal the wounds of war, rehabilitate and develop" Hanoi's economy, and "strengthen its national defense capability." The new pact obviously will include some military aid, but the order of priorities listed in the announcement indicates that the package will be weighted on the civilian side.

Hanoi almost certainly pressed for a heavy commitment of military aid, possibly arguing that such assistance would at least be necessary until the post - cease-fire military situation stabilized. In his speech, at a Peking rally on 7 June, Le Duan appeared more concerned than the Chinese speaker, Yeh Chien-ying, about difficulties still to come. He said the Vietnamese still have a "complicated course" to follow in South Vietnam. The Chinese appeared to view the situation with more equanimity, hinting that total compliance will take time. In another divergence, Yeh stressed that "all parties" should respect the agreements while Le Duan laid the blame for difficulties entirely at the allied side's door.

25X1

*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

9 Jun 73

Central Intelligence Bulletin

1

SECRET

SECRET

SOUTH VIETNAM: The government is strengthening its administrative control at the grass roots level. President Thieu's Democracy Party has scored impressive victories in village council elections that are being held throughout the country. In the Mekong Delta, for example, Democracy Party members have won about 80 percent of some 200 contests to date.

The party's success is due in large part to the tight control over the elections exercised by appointed local officials and to the fact that numerous independent and opposition figures refused to run. A few elections have been postponed, either because there were not enough candidates on the ballot or because officials believed that Viet Cong influence was too strong.

More local contests are scheduled in the coming weeks and the Democracy Party's success is likely to continue. Many local officials appear determined to ensure a government sweep, although in at least one area where non-Communist opposition groups are strong, they are actively working for a more balanced outcome.

Opponents of the government have thus far reacted mildly to the Democracy Party's successes. One reason is that many of the party's members were recruited from opposition or independent parties and are widely believed to lack any real commitment to Thieu. There is some bitterness, however, over alleged heavy-handed election tactics by the government. The Communists have charged that the elections violate the cease-fire agreement, but are generally ignoring the balloting itself. Thieu presumably believes that the need to strengthen the government's position at the local level is worth any criticism the elections may provoke. [REDACTED]

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25X1

9 Jun 73

Central Intelligence Bulletin

2

SECRET

SECRET

SPAIN: Franco's relinquishment of his position as premier to his vice-premier, Admiral Luis Carrero Blanco, and the cabinet changes scheduled for next week are apparently designed to reduce internal tensions. Franco's health has been declining in recent years, but there is no indication that his decision was prompted by some recent change in his condition.

By naming Carrero now instead of allowing him to become prime minister upon Franco's death according to the law of succession, Franco seems to be moving to restore greater cohesion in the government. This tightening-up probably foreshadows a further turn to the right in domestic policy. Franco retains his two other top positions as chief of state and supreme commander of the armed forces. Prince Juan Carlos remains as king-designate and will take over as chief of state on Franco's death or incapacitation.

Carrero, an ultraconservative and a close confidant of Franco, is dedicated to the preservation of the status quo. He is the leading instigator of the stepped-up security measures of the past several years against those who seek to protest injustices in Spain. Some members of the outgoing cabinet, who are linked to the Catholic lay organization Opus Dei, have favored mild liberalization of political controls to facilitate Spain's efforts to join the European Community. They were the target of rightist demonstrators last month who protested the murder of a policeman by a terrorist group, alleging that the murder was the result of an order forbidding police to use arms to quell May Day demonstrators. The rightists also protested the church's recent criticism of police action in the death of a worker in a clash in Barcelona. Although Carrero may retain some of the technocrats because of their economic expertise, he probably will respond to the pressures by appointing opponents of Opus Dei sympathetic to his own views.

25X1

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CSCE-MBFR: Participants in the multilateral preparatory talks on CSCE have resolved the remaining substantive and procedural issues and have agreed ad referendum to start the actual conference on 3 July. Final approval still hinges on agreement on the opening date of the MBFR negotiations.

In Vienna, Eastern and Western representatives at the MBFR preliminary talks have similarly resolved almost all outstanding differences in formulating a communiqué. Since the participants had already decided not to haggle over an agenda at this time, the only real issue remaining is the question of the date for beginning the actual negotiations. NATO representatives want a date no later than 30 October to be stated in the communiqué. Soviet leaders have recently stated that MBFR should begin only after all three phases of CSCE have been completed, and the Soviet negotiators in Vienna have therefore resisted setting a date for MBFR that might conflict with this.

Some NATO members have been reluctant to agree to a CSCE date until an MBFR date has been set. If a satisfactory Soviet response is not forthcoming soon, they could cause problems later, since all decisions at the CSCE preparatory talks, including the date of the conference, must still be formally approved by the respective governments. A majority of the NATO Council members favor withholding approval of the CSCE package until those members who want to link it to a Soviet commitment to MBFR have had a chance to state their case at the NATO ministerial meeting next week in Copenhagen.

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CHILE: President Allende may again be turning to General Prats to shore up his government in the present uneasy situation.

25X1 [redacted] Popular Unity (UP) coalition leaders planned to talk with Prats about bringing the military back into the cabinet when he returned this week from a month-long trip abroad. Allende may already have asked him to reassume the post of interior minister in the hope that this would strengthen the administration's ability to deal with the current strikes and other manifestations of widespread unrest.

Prats, spurred by his own presidential ambitions, would be likely to accept. If the rest of the army hierarchy still insists that the military must have all the cabinet posts or none, he might resign from the army. Prats is disenchanted with what he considers obstructionist tactics by civilian politicians and military officers who oppose the government, and he may believe that he could play an effective role in restoring order and even in moderating some government policies.

Although UP leaders differ over the value of reappointing military ministers, a civilian Prats in the top post would be an excellent solution for the politicians. His prestige would almost certainly ensure army loyalty, but not at the price of more power for the armed forces. [redacted]

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HUNGARY: Drought conditions are threatening to cause food shortages that will require the government to increase imports significantly in the coming year. If substantial rains do not occur within the next week or so, large shortfalls in wheat, barley, early vegetables, and green forage harvests are likely. Also threatened are the more recently planted important row crops--corn, sugar beets, and sunflowers--and this year's goals for livestock production.

Soil moisture reserves have been below normal in the major grain areas for nine consecutive months and, as of 1 June, were 40 percent below normal. According to press reports, a hot dry May caused some wheat to ripen prematurely. At this critical stage of development, wheat and barley yield prospects will deteriorate very rapidly without good soil moisture. Output of early vegetables has been reduced and development of spring barley and oats has been retarded. Some reseedling of late planted corn and vegetables that failed to germinate may be required.

A shortfall in grain and fodder crops may force Hungary to import larger than usual quantities of feed grain and protein supplements to support its high priority livestock program. Although Hungary had a record grain harvest last year, strong domestic demand and poor quality of the harvested grain did not permit a buildup of stocks. Hungarian officials are already concerned over a setback to hog production from an outbreak of foot-and-mouth disease and stagnation in the cattle industry. Restrictions on exports of livestock products are thus likely to be enacted this year.

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GREECE: The new republic apparently will feature a strong presidency, similar to that of France. The government announced yesterday that a president will be elected for a seven-year term without the right of re-election. The president will choose a premier and 20 of the 200 members of parliament. The members appointed by the president will not be able to vote on policy issues or participate in votes of confidence on the government. Parliamentary elections are yet to be scheduled, but are supposed to come before the end of 1974. Neither yesterday's statement nor last week's decree establishing the republic clarifies whether or not the provisional president, Prime Minister Papadopoulos, will stand for elections or simply take over. Press reports, probably government inspired, indicate that the people will be asked to vote for president as part of next month's referendum sealing the creation of a republic. Papadopoulos reportedly will be the only presidential candidate. [REDACTED]

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JAPAN: Japanese officials have been unable to test the country's first nuclear-powered ship because of domestic opposition. The government-owned experimental merchant ship--the Mutsu--was scheduled to conduct a test run shortly after being completed last October, but opposition from the local fishing industry, which fears nuclear contamination, has forced it to remain in port. If such opposition intensifies, the ship may have difficulty finding other ports-of-call in Japan even if its test runs are successful. The Mutsu's uncertain status, moreover, is likely to delay the construction of additional nuclear ships. Plans for other such ships, which also would be for commercial use, reportedly are already running into difficulty. The Japanese have no plans for the development of nuclear-powered warships. [REDACTED]

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